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PCRG
PITTSBURGH COMMUNITY
REINVESTMENT GROUP

Re: Request for Comment on Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 87 Fed. Reg. 75267

Attention: Docket No. OP-1793

The Pittsburgh Community Reinvestment Group (PCRG) appreciates the opportunity to comment on the Federal Reserve's Principles for Climate-Related Financial Risk Management for Financial Institutions with more than $100 billion in assets. As a coalition of community development and community-based organizations striving to address the legacy of redlining and disinvestment in Western Pennsylvania's low- to moderate-income (LMI) and Black, Indigenous, and People of Color (BIPOC) communities, we consider these principles vitally important for protecting the health and wealth of our communities in the face of climate change. We applaud the Federal Reserve Board of Governors for recognizing the unprecedented threat to our financial system posed by the climate crisis and the disproportionate physical and financial impacts faced by frontline communities. These communities disproportionately bear the brunt of the hazards and damages from climate-change-driven extreme weather events and have the fewest resources to adequately recover from them. PCRG supports the implementation of the proposed framework for climate-related financial risk management and mitigation principles. However, in response to the questions posed in the notice for public rulemaking, PCRG urges the Federal Reserve to consider the following suggestions to the current proposal.

1. In what ways, if any, could the draft principles be revised to better address challenges a financial institution may face in managing climate-related financial risks?

Guidance so as to not place undue burden on vulnerable communities

We encourage the draft principles on climate risk management to acknowledge the disproportionately high impact of climate change on LMI and BIPOC communities, and to provide explicit guidance to financial institutions so that they may adopt this framework without placing undue financial strain on these communities. These historically underserved populations are disproportionately located in areas that are most at risk for physical damages relating to climate change,[1] while having the fewest available resources to finance adaptive technology and infrastructure (e.g. generators, effective stormwater management infrastructure) and recover.[2] Furthermore, less access to capital means that these communities lack resources to purchase renewable and energy-efficient technology required to mitigate the rising cost of utilities due to extreme temperatures. Additionally, the impact of the transition away from fossil fuels on the labor market will disproportionately eliminate jobs held by lower-income individuals, while preserving jobs requiring more expensive-to-obtain skills.[3] As Pennsylvania is one of East Coast's largest suppliers of fossil fuels and electricity to the country[4] and, as of 2018, roughly 64,000 Pennsylvanians were employed in fossil fuel-based industries,[5] it's vitally important to our local context to protect the economic security of these populations by investing in assets that will create equivalent jobs in clean energy.

Strategies to combat "blue lining"

The current draft principles state that the adverse effects of climate change could "potentially" disproportionately impact LMI and other disadvantaged households and communities, but there is substantial evidence that low-income and BIPOC communities in the U.S. are likely to suffer the greatest meteorological effects of climate change.[6] LMI households and communities are especially vulnerable to the impact of natural and weather-related disasters brought on by climate change due to the geographic areas in which they're located and the nature of affordable housing being more susceptible to disaster related damage or risks such as drought or flooding. Fewer resources to fortify or repair said housing can make them less resilient to temporary loss of income, property damage, displacement costs, and health issues faced as consequences of such

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[1] Federal Reserve Bank of New York, "Reducing Climate Risk for Low-Income Communities," news release, (Nov. 19, 2020), https://www.newyorkfed.org/newsevents/events/regional_outreach/2020/1119-2020; Jesse M. Keenan and Elizabeth Mattiuzzi, "Climate Adaptation Investment and the Community Reinvestment Act," Community Development Research Briefs (June 16, 2019), https://www.frbsf.org/communitydevelopment/publications/community-development-research-briefs/2019/june/climate-adaptation-investment-andthe-community-reinvestment-act/.

[2] U.S. Global Research Program, Fourth National Climate Assessment, Volume II: Impacts, Risks, and Adaptation in the United States (Washington, D.C.: U.S. Global Change Research Program, 2018), https://nca2018.globalchange.gov/; Patrick Sisson, Bloomberg, "In Many Cities, Climate Change Will Flood Affordable Housing" (Dec. 1, 2020), https://www.bloomberg.com/news/articles/2020-12-01/how-climate-change-istargeting-affordable-housing; and Eleanor Kruse and Richard V. Reeves, Brookings Institution, "Hurricanes hit the poor the hardest," (Sept. 18, 2017), https://www.brookings.edu/blog/social-mobility-memos/2017/09/18/hurricaneshit-the-poor-the-hardest/

[3] Avtar, Ruchi, Kristian Blickle, Rajashri Chakrabarti, Janavi Janakiraman, and Maxim Pinkovskiy. 2021. "Understanding the Linkages between Climate Change and Inequality in the United States." *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.3961093, *12-13*.

[4] U.S. Energy Information Administration (EIA), Pennsylvania Profile Overview, Layers/Legend map data.

[5] PERI: Impacts of the Reimagine Appalachia & Clean Energy Transition Programs for Pennsylvania (2021) https://reimagineappalachia.org/wp-content/uploads/2021/01/Pollin-et-al-PA-Final-Report-1-22-21.pdf

[6] Avtar, Ruchi, Kristian Blickle, Rajashri Chakrabarti, Janavi Janakiraman, and Maxim Pinkovskiy. 2021. "Understanding the Linkages between Climate Change and Inequality in the United States." *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.3961093.

disasters and disproportionately affected by disaster-related health impacts.[7] Under the worsening threat of the climate crisis in recent years, lenders are increasingly drawing lines of risk around certain neighborhoods at particular risk for flooding or other climate-related disasters. This practice, known as "blue lining," is intentionally reminiscent of the term redlining.[8] As bank lending is crucial to recovery after a natural disaster, we cannot afford to downplay the importance of continued, intentional investment in these communities, and we therefore urge the Federal Reserve to provide more detail on how these principles will protect disadvantaged communities from further obstacles to securing capital.

Under the Community Reinvestment Act (CRA), which was enacted to combat redlining and to encourage financial institutions to meet the credit needs of the communities they serve, specifically LMI neighborhoods, these draft principles must specify that climate risk management practices must align with fair lending and fair housing obligations. In the Pittsburgh region, we have already seen how historically underserved municipalities, such as McKees Rocks, Pitcairn, Sharpsburg, and Turtle Creek have been affected by their location in effective flood hazard zones.[9] These areas of above-average social and climate vulnerability, many of them home to or serviced by PCRG member organizations, along with many other neighborhoods in Pittsburgh proper, would be at risk for disinvestment under a strict interpretation of the proposed framework. Banks should be required to monitor and address potential and existing disproportionate impacts on LMI and BIPOC communities. Additionally, they should systematically track their actions so as to avoid disproportionately impacting vulnerable communities, and/or track their progress in addressing these existing inequities. For the sake of accountability, information on these monitoring systems and progress around correcting inequitable practices should be publicly available.

Transition to low-carbon economy

One issue that this proposed framework fails to adequately address is the need for further decarbonization of our financial system. To effectively address the overwhelming risks to economic stability posed by increased reliance on fossil fuels, we must encourage banks to reduce the carbon footprint of their loan and investment portfolios and encourage climate mitigation investments in underserved communities. The Federal Reserve should be more proactive in encouraging the transition to a sustainable, low carbon economy, and prompt financial institutions to finance climate resiliency and remediation. We urge the Federal

[7] 12 CFR Part 228; Regulation BB Docket No. R-1769; RIN 7100-AG29

[8] Lindsey Jacobson, Banks consider climate risk for home loans, a process called 'underwaterwriting' or 'blue-lining', CNBC (Sept. 20, 2021); Michael D. Berman, Flood Risk and Structural Adaptation of Markets: An Outline for Action, Federal Reserve Bank of San Francisco (Oct. 17, 2019)

[9] Pennsylvania State University and FEMA "Pennsylvania Flood Risk Tool." Available at: https://pafloodrisk.psu.edu/ (Accessed: February 1, 2023).

Reserve to follow in the footsteps of the European Central Bank which has established core objectives for climate guidance that include "promoting sustainable finance to support an orderly transition to a low-carbon economy".[10] The Federal Reserve should encourage banks to adopt credible science-based net-zero transition plans.

The agency should use its authority of evaluating Community Reinvestment Act (CRA) performance of member banks of the Federal Reserve System to both discourage additional investment in fossil fuel infrastructure and expansion and encourage financing for climate resiliency and adaptation, especially targeted to underserved communities. These are necessary steps in order to accomplish the goal of a "net-zero emissions economy by no later than 2050" as stated in Executive Order 14030 issued by the Biden Administration in 2021, and to avoid the worse outcomes of climate change.[11]

Risk weights as a strategy for increasing bank resiliency/discouraging fossil fuel investment

With respect to transition risks as well as furthering decarbonization efforts, one thing that could be added to the draft principles is modifying the required risk weight for fossil fuel assets. Currently, under the Basel III standardized approach, "dirty" assets like fossil fuels receive a risk weight of 100%. There is an existing precedent for regulators to give higher weight to particularly risky assets, such as occurred with high-volatility commercial real estate (HVCRE) exposures in the wake of the 2008 financial crisis where the risk weight was raised to 150%.[12] In 2016, the Federal Reserve proposed a climate-related risk weighting rule in recognition of the fact that banks holding certain physical assets (e.g., oil) causes exposure to unique credit, legal, and operational risks (e.g., environmental contamination from an oil spill).[13] Under this proposed rule, risk weights ranging from 300% to 1,250% would be assigned for such assets. Due to the strong similarities between this proposed rule and the current NPR climate-related risk management framework, and the projected tens of trillions of dollars in potential losses from physical and transition risks,[14] it seems appropriate to apply a similar risk weight percentage range to all "dirty" assets held by Federal-Reserve-insured financial institutions.

While rapidly modifying the valuation of risk has potentially disastrous consequences, we encourage the FRB to promote strategies for easing transition pains that adhere to fair lending obligations set forth in the CRA. So as not to limit the flow of capital to LMI and BIPOC

[10] "ECB Climate Agenda 2022." July 4 2022. Available online at https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220704_annex~cb39c2dcbb.en.pdf
[11] Exec. Order No. 14,030, 87 Fed. Reg. 27967 (May 20, 2021), at https://www.federalregister.gov/documents/2021/05/25/2021-11168/climate-related-financial-risk.
[12] "Federal Register Vol. 78, No. 198: Regulatory Capital Rules," National Archives and Records Administration, October 11, 2013, https://www.govinfo.gov/content/pkg/FR-2013-10-11/pdf/2013-21653.pdf. 59 Gelzinis, "Addressing Climate-Related Financial Risk," 15.
[13] Gelzinis, "Addressing Climate-Related Financial Risk," 15.
[14] Caldecott et al., "Stranded Assets and Renewables," 6.

frontline communities, a swift and equitable transition to renewable energy and climate-resiliency investments in these areas should be promoted through the draft principles.

<u>2. Are there areas where the draft principles should be more or less specific given the[15] current data availability and understanding of climate-related financial risks? What other aspects of climate-related financial risk management, if any, should the Board consider?</u>

We support the draft principles position that any public statements made by financial institutions regarding climate-related strategies and commitments should align with their internal strategies and risk appetite statements. We also encourage the Federal Reserve to provide greater detail on the role that regulators will take on in ensuring this alignment (e.g., conditional approvals upon meeting climate commitments).

Additionally, the Federal Reserve does not consider climate issues as being within its regulatory scope[16] with respect to its role in reviewing bank mergers. However, banks are increasingly citing climate commitments for the purpose of securing mergers[17] through practices like Community Benefits Agreements (CBAs) that provide an argument for reconsidering this position. A crucial part of the review of merger applications is an inspection of the bank's history of serving the convenience and needs of the communities they serve, and the ways in which the bank will continue to meet these needs if the merger is approved. The position that climate commitments and fossil fuel investments are outside of the scope of the Federal Reserve's regulatory authority is at odds with the concerns about climate-related risk stated in these draft principles and misrepresents the Board's power in acting on issues of climate change as a result of fossil fuel investments. When banks cite climate commitments as evidentiary of meeting their community needs for the purpose of securing mergers, under the Bank Holding Company Act regulators have the authority to issue conditional approvals related to convenience and needs to not only make sure that banks are *able* to meet these commitments, but also certifying that the commitments are fully met.[18]

Furthermore, the Board has already recognized this disproportionate impact of climate change and the need for intentional investment implicitly through the recent joint-CRA rulemaking process, which expanded community development activities to include a broader range of climate resilience and disaster preparedness activities.[19] As such, we urge the Board to further encourage financing for climate resiliency and remediation activities by aligning their draft

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[15] FRB Notice of Proposed Rulemaking pg 10-11

[16] Irfan, Umair. "The Federal Reserve Is Starting a Climate Experiment." Vox. Vox, January 23, 2023. https://www.vox.com/science-and-health/23561441/federal-reserve-jerome-powell-climate-change-citigroup-jpmorgan.

[17] Some examples of this include the BMO Harris Bank-Bank of the West merger application, the PNC Bank-BBVA USA merger, and the U.S. Bank-MUFG Union merger.

[18] 12 CFR § 225.13 - Factors considered in acting on bank acquisition proposals.

[19] "Disaster preparedness and climate resiliency activities" (CRA NPR 2022 pg 80)

principles with the updated CRA rule such that the following activities are eligible for CRA community development credit, and would also receive positive consideration in the newly proposed "impact review" of the community development test:

- the development of climate resilient affordable housing, schools, and businesses;
- clean electricity projects and microgrids;
- nature-based protective infrastructure ("green infrastructure");
- building decarbonization, which includes holistic home weatherization and health interventions;
- lending to green small businesses and corporations with legitimate decarbonization transition strategies;
- electric public transit and electric vehicle charging infrastructure;
- investments in weatherization and climate resilience for local businesses; and
- operational support and capacity building for environmental and climate justice organizations, including support for community groups active in environmental testing and training of community members to identify environmental risks in their communities

While these guidelines are only intended for banks above the $100 billion threshold, this guidance is essential to mitigate the same lack of internal and external alignment between banks' climate strategies. 100% of banks serving the Pittsburgh area that have assets greater than $10 billion have publicly stated Environmental, Social, and Governance (ESG) or climate policies. Of all Pittsburgh-area banks that are classified as "large" institutions as per the CRA, more than 75% of them have public ESG or climate strategies. Even if it cannot be a part of this rulemaking process, the issue of greenwashing, particularly as such commitments are cited to secure mergers, is prevalent in a far greater percentage of institutions than are covered by the threshold set forth in this framework. Following from our argument in the previous paragraph, it is the FRB's responsibility to ensure that climate commitments cited as factors in application processes over which they have regulatory authority are being met, and we encourage them to include more specific guidance on the subject for all "large" banks such as the incorporation of climate related risks into the safety and soundness review of merger applications.

While rapidly modifying the valuation of risk has potentially disastrous consequences, we encourage the FRB to promote strategies for easing transition pains that adhere to fair lending obligations set forth in the CRA. So as not to limit the flow of capital to LMI and BIPOC frontline communities, a swift and equitable transition to renewable energy and climate-resiliency investments in these areas should be promoted through the draft principles. LMI households and communities are especially vulnerable to the impact of natural and weather-related disasters brought on by climate change due to the geographic areas in which they're located and the nature of affordable housing being more susceptible to disaster related damage or risks such as drought or flooding.[20] Fewer resources to fortify or repair said housing

[20] 12 CFR Part 228; Regulation BB Docket No. R-1769; RIN 7100-AG29

can make them less resilient to temporary loss of income, property damage, displacement costs, and health issues faced as consequences of such disasters (103) and disproportionately affected by disaster-related health impacts.

3.What challenges, if any, could financial institutions face in incorporating these draft principles into their risk management framework?

PCRG recognizes that these draft principles are intended for financial institutions with $100 billion in assets or more, but challenges related to managing climate risk will be more difficult for smaller banks as they have fewer resources and tend to have region- and market-specific lending and investment portfolios than their larger counterparts. As many Minority Depository Institutions (MDIs) are in communities highly vulnerable to the effects of climate change, climate-related risk disproportionately endangers their operations. According to the University of Notre Dame's Urban Adaptation Assessment tool[21] and information on MDIs from the FDIC, our national partners at NCRC have determined that at least 55% of MDIs are headquartered in cities with high climate risk, with more than half of those MDIs (29% of total active MDIs) also being in areas of "low readiness" with respect to adapting to climate-related hazards.[22] As MDIs are a crucial source of capital for many underserved communities, the Federal Reserve should provide a tailored climate risk management framework for these institutions as well as other smaller financial institutions as soon as possible. We support previously submitted comments directing regulators to work with MDIs and smaller financial institutions to encourage the implementation of policies and procedures that have worked in response to previous disasters.[23] The Federal Reserve should survey effective strategies for underwriting green loans that have been carried out by smaller institutions. Guidance around policies and procedures concerning green lending will provide confidence to smaller institutions and MDIs in moving forward with green loans for underserved communities.

Conclusion

We thank the Federal Reserve Board again for the opportunity to comment on these principles and strongly encourage them to continue to listen to stakeholders as they move into the formal rulemaking process. We are pleased to see the Federal Reserve begin to take action on climate change but believe more work can be done in refining this framework and look forward to seeing the final result.

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[21] University of Notre Dame's Urban Adaptation Assessment. Available online at https://gain-uaa.nd.edu/?referrer=gain.nd.edu

[22] These figures represent the minimum number of MDIs headquartered in cities with higher climate vulnerability. Incomplete data from the FDIC prevents an analysis of all 145 MDIs. FDIC information on financial institutions is available online at the FDIC's BankFind Suite at https://banks.data.fdic.gov/bankfind-suite/bankfind?activeStatus=1&branchOffices=true&pageNumber=1&resultLimit=25

[23] Letter to OCC from Americans for Financial Reform et al., re OCC Principles for Climate-Related Financial Risk Management for Large Banks, Attention: Docket ID OCC-2021-0023-0001, February 14 2022

Sincerely,

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